

20 February 2020



Sebastian Roberts
General Manager, Transmission and Gas
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Roberts,

Submission to Jemena Gas Networks revised access arrangement 2020-25

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the AER's draft determination and Jemena Gas Networks' revised access arrangement for the 2020-25 period.

PIAC staff have engaged with Jemena on various issues related to the 2020-25 access arrangement as part of Jemena's customer council, as observers and active participants at a range of engagement activities as Jemena developed its original proposal, and further direct engagement with Jemena and other stakeholders as Jemena developed its revised proposal.

This submission builds on these interactions as well as our submission to the original proposal.¹

Accelerated depreciation

PIAC supports the AER's draft determination not to allow accelerated depreciation for new network investments to address potential future asset stranding risk.

Jemena has proposed that introducing accelerated depreciation for new network investments would reflect the preferences of their consumers as determined through their deliberative forums. While Jemena's engagement was excellent overall, PIAC challenges the accuracy of Jemena's claim in this case, as the issue was not represented to participants in a completely balanced and accurate manner. PIAC notes the question was posed to forum participants with the only options being a trade-off between current and future consumers, and the option of a trade-off between consumers and Jemena's shareholders was not canvassed. In PIAC's view this inappropriately assumes that consumers must take on Jemena's investment risk, and does not allow a valid conclusion about consumer preferences to be drawn.

¹ PIAC, *Submission to Jemena Gas Networks' 2020 Plan*, August 2019.

We consider any decision to introduce accelerated depreciation is better made at a policy-level considering all regulated network businesses, rather than for Jemena in this regulatory control period alone.

The broader issue of the AER's regard for the outcomes of direct consumer engagement is discussed in the following section.

Treatment of consumer engagement outcomes

Being a natural monopoly providing an essential service, it is essential that businesses like Jemena implement formal consumer engagement programs. These programs help network businesses plan and operate their networks in a way that reflects the requirements and preferences of their customers. As noted in our earlier submission, Jemena has undertaken commendable engagement in developing its access arrangement proposal. Jemena was awarded the ENA/ECA consumer engagement award in 2019.

However, engagement does not abrogate the AER's primary role in revenue determinations. The AER, as an expert regulator, must ensure that any expenditure decision remains prudent and efficient and that the revenue recovered from consumers remains in the long-term interests of consumers.

While we agree that trust is vital in such engagement processes, we disagree with Jemena that 'making decisions which go against the outcomes of direct customer engagement will undermine trust and belief in the legitimacy of the process and weaken incentives for both networks and customers to engage in future engagements.'²

Trust in engagement processes may be undermined if it is unclear or opaque how the regulator considers these preferences in making its decision. It is not a simple matter of direct engagement outcomes trumping other considerations or perspectives, particularly in matters of economic efficiency.

The outcomes of deliberative forums and engagement must be transparently and honestly considered by the AER in making its decision, and clear reasons provided for why and how it has chosen to use it (or not use it).

Volume boundary metering

As noted in earlier submissions,³ PIAC retains concerns regarding consumer outcomes if volume boundary metering is introduced for new high-rise sites, as proposed by Jemena. While PIAC supports Jemena's intent to minimise its capital expenditure through the use of volume boundary metering, the ultimate impact on the households within the site depends also on the costs from the Embedded Network Operator. Embedded networks have been a concern in the electricity market and have been the subject of several recent submissions by PIAC and a recent review by the AEMC.

PIAC supports the AER's draft determination and Jemena's revised proposal not to introduce volume boundary metering in this access arrangement.

² Jemena, *Jemena Gas Network Revised 2020 Plan*, January 2020, x.

³ PIAC, *Submission to Jemena Gas Networks' 2020 Plan*, August 2019, 5.

Continued engagement

PIAC would welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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